

PanCanadian

AR14



PanCanadian Petroleum Limited
1972 Annual Report

Annual Report for the Year Ended December 31, 1972

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Enclosed Canadian Arctic Islands Map,
permission of Panarctic Oils Ltd.

Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., on Thursday, April 12, 1973. Notice of the meeting, information circular and form of proxy are being mailed to each Shareholder with this report.

Cover:

Cover sketch by Robert A. Saunders

The hunt continues. While the search for hydrocarbons in the Arctic goes on, an Eskimo seal hunter awaits his prey.

Two Year Comparative Highlights

Financial	1972	1971	% Increase
Gross Income	\$47,217,088	\$39,432,151	19.9
Cash Generated from Operations	34,964,729	30,597,938	14.3
Per Share	1.12	1.00	
Net Income			
From Operations	15,244,203	14,097,338	8.1
Extraordinary Items	—	399,812	
Total	15,244,203	14,497,150	5.2
Per Share			
From Operations	.49	.46	
Extraordinary Items	—	.02	
Total	.49	.48	
Cash Dividends	9,982,240	9,560,462	4.4
Per Share	.32	.31	
Capital Expenditures	30,337,944	24,850,831	22.1
Long Term Debt	71,979,169	32,706,463	
Working Capital (Deficiency)	29,895,613	(1,793,776)	

Operations

Production — net (daily)			
Oil - bbls.	31,096	25,827	20.7
Natural Gas - MMcf	199.5	179.3	11.6
Natural Gas Liquids - bbls.	2,899	2,703	7.5
Sulphur - l.t.	267	253	5.6
Drilling Record			
Exploratory Wells Drilled	60	45	
Successfully Completed	24	14	
Development Wells Drilled	52	38	
Successfully Completed	40	21	
Net Oil Wells	444.5	447.2	
Net Gas Wells	367.1	323.4	
Net Acres	14,797,945	14,930,372	

To the Shareholders

On behalf of the Board of Directors we are pleased to present the Annual Report for 1972. During the past year PanCanadian Petroleum Limited achieved record levels of revenues, earnings and production.

Gross income rose from \$39.4 million to \$47.3 million and net income from \$14.5 million to \$15.2 million. Cash flow from operations increased from \$30.6 million to \$35.0 million.

Production of crude oil and natural gas liquids of 33,994 barrels per day exceeded the 1971 figure by 5,464 barrels per day with natural gas sales increasing by 20 million cubic feet per day to 200 million cubic feet per day.

The Company continued its aggressive program of exploration and development of gas and oil reserves throughout Western Canada.

Of particular significance to our Canadian exploration program is the new emphasis being placed on development of shallow gas reserves in southern Alberta, where PanCanadian has extensive holdings of fee lands. Five wildcat wells were drilled on widely separated blocks and all found natural gas in the Milk River formation. Additional tests of these and other areas are scheduled for 1973. Increasing natural gas field prices make the potential for exploitation of these major reserves attractive.

PanCanadian continued to concentrate major exploratory efforts in the Foothills belt of Alberta, where two separate discoveries of gas in Mississippian structures were made on Company farmouts in 1972.

Your Company actively explored in the Deep Basin of Alberta and the Mackenzie Delta area of the Northwest Territories during 1972, and will continue to participate in exploratory ventures in these areas in the future.

PanCanadian, with a 9.03% interest, maintained its position as one of the largest shareholders in Panarctic Oils Ltd. Panarctic recently reported its fourth major gas discovery. The latest discovery is located in the Sabine Peninsula of Melville Island. PanCanadian is also participating on a working interest basis in a well on Ellef Ringnes Island which is currently being drilled. In January 1973, Dome Arctic Ventures Wallis K-62, encountered an excellent gas bearing sand on King Christian Island. This discovery, the eighth major gas well in the Canadian Arctic brings Panarctic closer to the threshold reserves required to justify construction of a pipeline to southern markets.

Though the bulk of the 1973 exploration expenditures will be made in Canada, the Company has entered into activities outside the country in order to obtain a position in other highly prospective geological basins which are now relatively unexplored.

In the U.K. sector of the North Sea, two blocks acquired in the awards of early 1972 merit special mention. Block 21/18 is 25 miles southwest of the huge Forties oil field and Block 3/30

only 5 miles from the Frigg field, which is considered to be one of the largest North Sea gas discoveries. Plans for land acquisition and further exploratory work are underway for the Dutch and the Norwegian North Sea, Irish waters, Sicily, offshore Tunisia and both onshore and offshore Italy.

Your Company is also participating in drilling and exploration programs in the onshore Gulf coast and in the Rocky Mountain areas of the United States.

During 1973 the selling price of approximately one-third of the Company's gas sales contracts is to be renegotiated. In view of the firm stand taken by the Alberta Government with respect to the field pricing of natural gas, it is reasonable to expect significantly higher prices to result from these negotiations.

PanCanadian has acquired all the shares of TransCanada Petroleum Limited. The name of this wholly owned subsidiary of PanCanadian has been changed to PanCanadian Gas Products Ltd. Gas Products has a 50% interest in a natural gas liquids extraction plant at Empress, Alberta and varying interests in downstream transportation, storage and fractionation facilities. Gas Products' net share of production of natural gas liquids from the Empress plant in December 1972 averaged almost 8,800 barrels per day. The plant is designed to process some 1.5 billion cubic feet per day of natural gas. Estimated propane and heavier liquids recoveries will be in the range of 20,000 barrels per day, 50% of which will be owned by Gas Products.

In November 1972, crude oil prices were increased by 10c per barrel and were again raised 20c per barrel in January 1973. The total increase will mean additional gross revenues in excess of \$4 million a year to your Company. The Government of Alberta's Natural Resource Revenue Plan announced in 1972, is intended to raise an additional \$70 million annually. Until the Government releases the final details, it is difficult to accurately determine the effect of the tax on PanCanadian.

Your directors acknowledge the important contribution of the personnel of PanCanadian Petroleum Limited to the progress which the Company was able to achieve in 1972.

Robert W. Campbell

Chairman of the Board and
Chief Executive Officer.

Jim Taylor

President.

Calgary, Alberta.
March 15, 1973.

Exploration and Development

Capital Expenditures

Capital expenditures in 1972, excluding our investment in Panarctic Oils Ltd., amounted to \$30.3 million, an increase of \$5.4 million or 22% over the previous year. Land acquisition and retention accounted for \$5.9 million, an increase of \$1.8 million over 1971. Geological and geophysical costs were \$8.2 million compared with \$7.7 million in 1971. Exploratory and development drilling expenditures increased by \$1.9 million to \$10.7 million. Of this amount \$8.7 million was expended on exploratory wells and \$2.0 million on development wells. Production facilities and equipment costs increased by \$1.2 million over the previous year to \$5.6 million.

Land

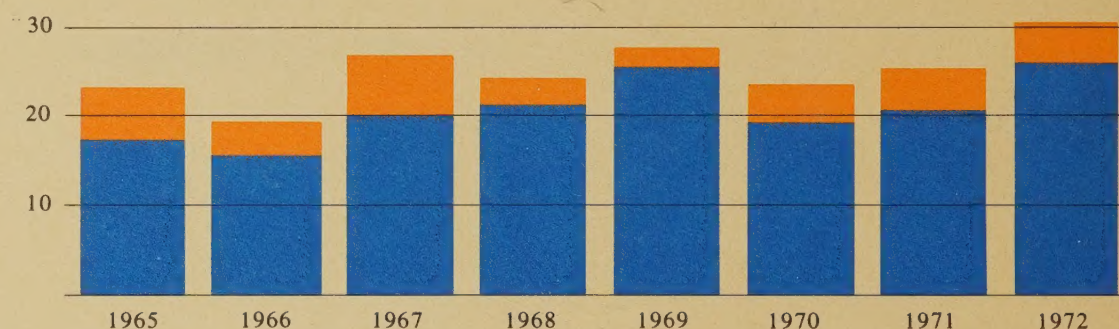
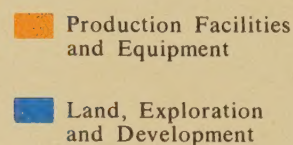
The Company expended \$5.9 million on the acquisition and retention of petroleum and natural gas rights during 1972. A detailed table of the Company's working interest holdings in petroleum and natural gas rights as at December 31 is found on page 15 accompanying the map of Western Canada.

Our acreage in the Arctic Islands, exclusive of the Company's 9.03% interest in Panarctic Oils Ltd., remained unchanged from the previous year's total of 1,686,740 gross acres (235,135 net acres).

Acreage in the United States increased from 96,040 gross acres (64,236 net acres) in 1971 to 226,868 gross acres (74,416 net acres) in 1972.

CAPITAL EXPENDITURES

Millions of dollars



Capital Expenditures

	1972	1971
Exploration and Development		
Land Acquisition and Retention	\$ 5,919,009	\$ 4,059,449
Geological, Geophysical and Overhead	8,156,302	7,681,394
Exploratory Drilling	8,680,471	7,607,686
Total Exploratory	22,755,782	19,348,529
Development Drilling	1,985,007	1,129,183
	24,740,789	20,477,712
Production Facilities and Equipment	5,597,153	4,373,119
	\$30,337,942	\$24,850,831

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1972 \$1,811,989, 1971 \$1,572,820, 1970 \$1,451,486.

Contributing to this increase were acquisitions in Louisiana, Mississippi, Alabama and North Dakota.

A total of 2.2 million gross acres (.8 million net acres) of petroleum and natural gas rights were acquired in areas located in the North Sea and the Mediterranean Sea.

Our acreage in the United Kingdom sector of the North Sea remained unchanged with a 4.5% interest in Block 48/18b and 48/19b located northwest of the Viking, Hewett, Indefatigable and Leman gas fields. PanCanadian also has a 9% interest in two blocks covering 117,400 gross acres near the Frigg gas field and the Forties oil field. Block 3/30 diagonally offsets the giant Frigg field by 5 miles while Block 21/18 is in the area of the Forties field which is reported to have discovered some 4 billion barrels of oil.

In the Mediterranean area the Company participated in a number of joint exploratory undertakings in Italy and Sicily with Societa Italiana Resine. These ventures included a 35% interest in an onshore tract in the Adriatic area on the Gulf of Taranto and a 33 $\frac{1}{3}$ % interest in tracts in southeast Sicily.

A total of 315,000 gross acres were acquired in northeast offshore Tunisia in which your Company holds a 37 $\frac{1}{2}$ % working interest.

Acreage farmed out during the year totalled 984,674 acres of which 829,432 were in Alberta, 27,216 acres in British Columbia, 105,626 in the Northwest Territories and 22,400 acres in Saskatchewan and Manitoba. The Company retains either a working interest or an overriding royalty on all lands farmed out.

NORTHERN EUROPE

- EXPLORATION PARTICIPATION AREA
- GAS FIELDS
- OIL FIELDS
- COMPANY ACREAGE





Geological and Geophysical

Geophysical activity on Company holdings covered wide areas of Western Canada, Eastern Canada offshore, the Northwest Territories, the United States, the North Sea and the Mediterranean Sea.

Seismic programs were carried out in the deep basin area of Alberta and in several parts of the Foothills in Alberta and British Columbia.

PanCanadian extended its exploration program into eastern Canadian offshore prospects by obtaining approximately 4,000 miles of seismic data. The areas covered by this program encompassed the Grand Banks of Newfoundland, the east coast of Nova Scotia and the Gulf of St. Lawrence.

An extensive seismic program was completed in the Anderson Plains area of the Northwest Territories and seismic operations were also conducted in the shallow waters off the western Mackenzie Delta.

In the United States geophysical exploration was carried out in northwestern Montana, and in the mainland U.S. Gulf Coast area.

The Company and its partners have recently negotiated a farmout from B.P./Gulf in a block in south Dutch North Sea waters and on which geophysical exploration will take place early in 1973. PanCanadian also joined a group, holding a 33% interest, to obtain the necessary data preparatory to making application for permits in Norwegian waters. The Company also has an 11% interest in a group exploring in Irish waters with a view to tendering on these lands which the Irish Government calls for bids.

In the Mediterranean area the Company continued seismic evaluations on the newly acquired holdings covering offshore Tunisia, Sicily and mainland Italy.

Drilling

During 1972, 544 wells were drilled on Company lands. Of this total 112 were working interest wells and 432 were royalty interest wells. Of the total number of wells drilled, 6 working interest and all the royalty interest wells were free of cost to the Company.

Successful completions during the past year totalled 397 wells. This consisted of 68 oil wells, 326 gas wells and 3 facility wells.

Of the working interest wells, 21 (13.813 net) were successful oil wells, 43 (30.442 net) were successful gas wells and 3 (1.821 net) were completed as facility wells. In addition, 8 of the

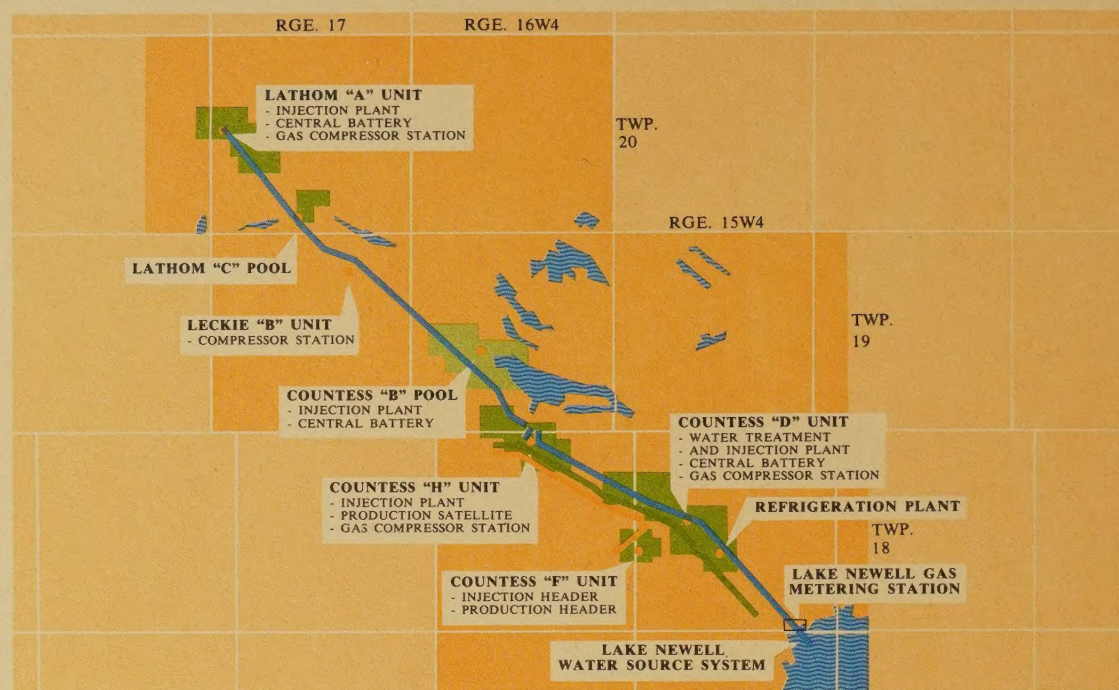
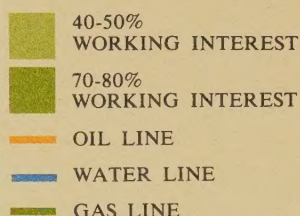
oil wells and 3 of the gas wells were subject to a royalty interest.

The royalty interest wells resulted in 47 oil wells and 283 gas wells of which 3 oil wells and 26 gas wells were convertible to various working interests after recovery of varying percentages of the drilling costs.

Drilling Record

	Oil		Gas		Dry		Facility		Total		Gross
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Footage
Exploratory											
Alberta	5	2.795	18	11.503	23	16.575			46	30.873	196,614
Saskatchewan					1	.500			1	.500	3,960
Northwest Territories					1	.500			1	.500	9,413
North Dakota					1	1.000			1	1.000	4,665
Wyoming					5	1.609			5	1.609	37,551
Mississippi					1	.125			1	.125	17,046
Alabama					1	.125			1	.125	17,606
Louisiana					1	.125			1	.125	17,223
North Sea			1	.045					1	.045	9,206
Italy					2	.700			2	.700	14,220
	5	2.795	19	11.548	36	21.259			60	35.602	327,504
Development											
Alberta	16	11.018	23	18.760	9	5.434	1	.713	49	35.925	134,834
Saskatchewan							1	.554	1	.554	4,480
Montana							1	.554	1	.554	6,500
New Mexico			1	.134					1	.134	10,870
	16	11.018	24	18.894	9	5.434	3	1.821	52	37.167	156,684
Total											
Alberta	21	13.813	41	30.263	32	22.009	1	.713	95	66.798	331,448
Saskatchewan					1	.500	1	.554	2	1.054	8,440
Northwest Territories					1	.500			1	.500	9,413
North Dakota					1	1.000			1	1.000	4,665
Montana							1	.554	1	.554	6,500
Wyoming					5	1.609			5	1.609	37,551
Mississippi					1	.125			1	.125	17,046
Alabama					1	.125			1	.125	17,606
Louisiana					1	.125			1	.125	17,223
New Mexico			1	.134					1	.134	10,870
North Sea			1	.045					1	.045	9,206
Italy					2	.700			2	.700	14,220
	21	13.813	43	30.442	45	26.693	3	1.821	112	72.769	484,188

COUNTESS WATERFLOOD



Exploratory

Of the 112 working interest wells, 60 were exploratory resulting in 5 (2,795 net) oil wells and 19 (11,548 net) gas wells. In southern Alberta, two of the oil wells were drilled in the Countess area with 77.5% and 75.7% interest and one in the Rosedale area with a 50% interest. In the northern part of the province two oil wells were drilled in the Wallace and Meekwap areas east of Swan Hills with interests of 70% and 6.25% respectively. Of the 19 successful gas wells, 14 were completed in the southern Alberta plains, 6 of these being owned 100% by the Company while a working interest was retained in the other 8 wells. Three wells were drilled in the Wandering River and Smoky Lake areas in the northern Alberta plains, 2 at 100% and 1 at 50% interests. One well was drilled in the foothills of southern Alberta near Whiskey Creek north of Turner Valley in which an 18³/₄% interest was held. The Company also participated with Ranger Oil in a gas discovery in the southern part of the British sector of the North Sea, retaining a 4.5% interest.

A significant natural gas discovery was made 40 miles west of Calgary, in December of 1972, by Phillips Petroleum. Your Company currently holds a royalty interest in the discovery well, Phillips Ghost 4-36-26-8 W5, which is conver-

tible to a 50% working interest after 100% of drilling costs have been recovered by Phillips Petroleum. Drill stem tests in the Mississippian formation indicated a flow rate of 18,500 Mcf per day in the upper zone while the lower zone tested at 14,000 Mcf per day.

Development

The 52 working interest development wells resulted in 16 (11,018 net) oil wells and 24 (18,894 net) gas wells. Of the 16 successful oil wells, 8 were drilled in the development of the Countess area in which the Company has interests in excess of 75%. The Alderson area accounted for 3 development wells with Company interests of 50% in each and 2 wells were drilled in the Horsefly area with interests of 100% and 50%.

A substantial portion of the Company's gas development and step-out drilling was concentrated in the Newell area of southern Alberta in which 15 wholly-owned Company wells were drilled.

The Company's drilling program for 1972 extended into many areas of the United States with a successful development gas well being completed in New Mexico, testing up to 6,888 Mcf per day. A working interest of 13.4% is held by your Company in this well.

Production

Crude Oil

Net crude oil production rose by 1,954,391 barrels in 1972, an increase of 20.7% over 1971. A daily average of 31,095 barrels was recorded for the year compared with 25,827 barrels per day in 1971. During December oil production exceeded 36,000 barrels per day for the first time in the Company's history.

PanCanadian continued secondary recovery projects designed to increase the productive capacity of its properties with the largest undertaking being the Countess waterflood project. The first and most important stage of this project — the Countess 'D' Pool — was completed in 1972 and resulted in an increase of some 6,000 barrels per day of oil production during the latter part of the year. The final phases of the development are scheduled for completion in 1973. The waterflood is schematically illustrated on page 8, together with the outlying water injection and oil gathering system. PanCanadian is the operator of the project and has a 75% interest.

It will be noted in the accompanying tabulation, that the major increase in production, in excess of 3,300 barrels per day, came from the Countess area of south central Alberta. Increases in excess of 100 barrels of oil per day were also recorded in the Wizard Lake, Fenn Big Valley, Westeros, Bonnie Glen, Lathom, Gilby and Parflesh areas of Alberta.

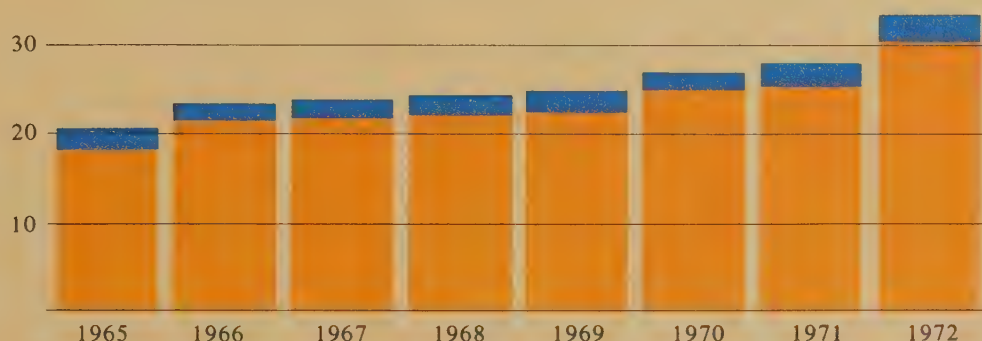
Net Crude Oil Production

Barrels Daily	1972	1971
ALBERTA		
Countess	5,108	1,745
Wizard Lake	2,656	2,079
Fenn Big Valley	1,476	1,171
Taber	1,411	1,664
Westeros	1,137	639
Bonnie Glen	927	742
Horsefly	874	1,014
Bantry	846	1,112
Hussar	674	626
Lathom	658	379
Gilby	618	441
Parflesh	519	297
Pembina	504	484
Leduc	417	361
Redwater	390	305
Black	370	713
Bellshill Lake	285	276
Wintering Hills	272	273
Joarcam	256	251
Provost	254	172
Medicine River	250	251
Other	2,767	2,169
	22,669	17,164
SASKATCHEWAN		
Weyburn	5,404	5,654
Flat Lake	619	625
Lake Alma	418	388
Handsworth	368	407
Ratcliffe	356	399
Macoun	263	288
Other	845	800
	8,273	8,561
MANITOBA		
	91	98
UNITED STATES		
	62	4
	31,095	25,827

NET CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION

Thousands of barrels per day

■ Natural Gas Liquids
■ Crude Oil



Natural Gas and Associated Products

In 1972 PanCanadian continued to rank among the top ten natural gas producers in Canada with annual sales totalling 73 billion cubic feet. Daily production averaged 199.5 million cubic feet, an increase of 20.2 million cubic feet or 11.6% over the 179.3 million cubic feet per day recorded the previous year.

Higher sales were due to the increase in contracted volumes and the addition of several new productive areas which were placed on stream during the year. The solution-gas gathering and gas cap system at Gilby-Medicine River was completed and put into operation in August and a gas plant at Ferrybank in central Alberta was put on stream in November of 1972. Significant increases were recorded from the Jumping Pound, Ferrybank, Alderson and Redland areas of Alberta as tabulated on the accompanying table.

Net natural gas liquids production averaged 2,899 barrels per day in 1972, an increase of 196 barrels per day or 7.5% over 1971 production of 2,703 barrels per day.

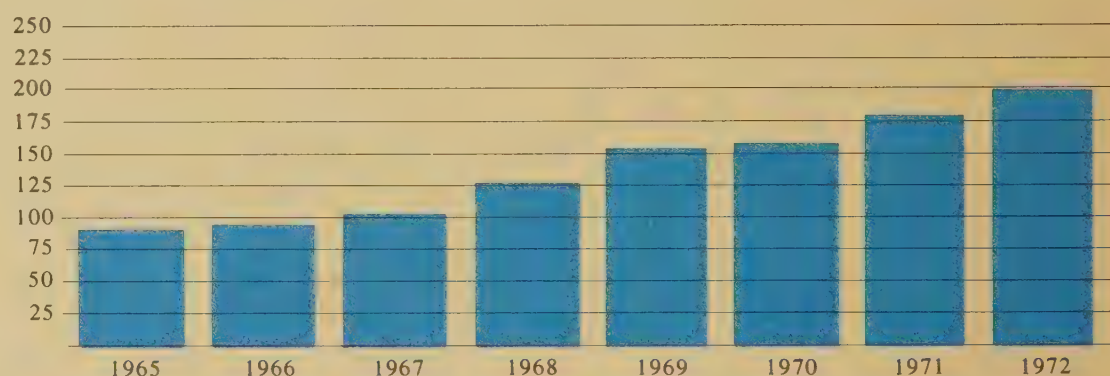
Sulphur production increased to 267 long tons per day while sulphur sales decreased to 154 long tons per day. The large inventories of sulphur resulting from deflated markets and higher extraction rates continued to exert a downward pressure on prices as the average selling price to PanCanadian decreased from \$6.42 to \$3.75 per long ton in 1972.

Net Natural Gas Production

Millions of Cubic Feet Daily	1972	1971
ALBERTA		
Jumping Pound	23.8	18.2
Countess	20.2	21.6
Calgary	16.7	18.6
Alderson	15.4	13.2
Hussar	14.5	16.0
Westerose South	11.1	10.6
Redland	10.0	9.1
Wayne	8.1	8.0
Wintering Hills	7.7	8.8
Ukalta	4.3	4.2
Gilby	4.3	4.2
Ferrybank	4.3	.8
South Carbon	3.0	3.2
Verger	2.9	3.2
East Crossfield	2.8	2.9
Homeglen Rimbey	2.7	2.7
Nevis	2.5	2.2
Bantry	2.2	2.1
Other	37.3	29.2
	193.8	178.8
UNITED STATES		
	5.7	.5
	199.5	179.3

NET NATURAL GAS SALES

Millions of cubic feet per day



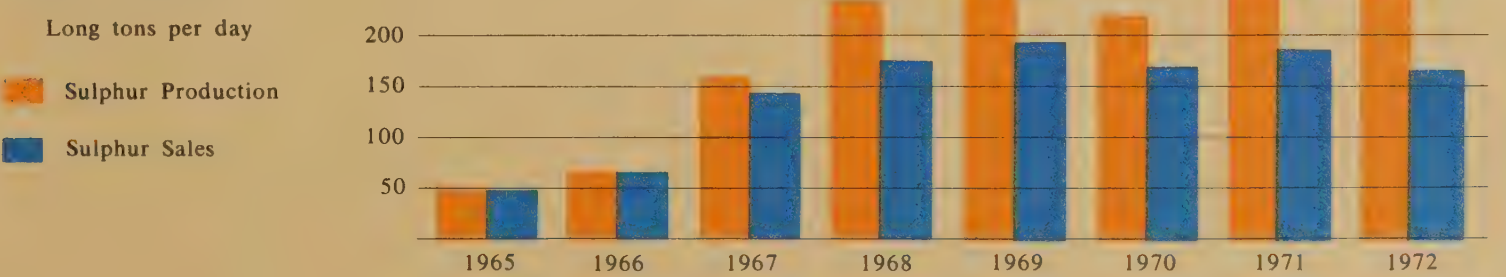
Net Natural Gas Liquids Production

Barrels Daily	1972	1971
ALBERTA		
Westerose	880	886
Jumping Pound	516	398
Calgary	323	337
Hussar	257	264
Homeglen Rimbey	163	184
Other	742	633
	2,881	2,702
UNITED STATES	18	1
	2,899	2,703

Net Sulphur Production

Long Tons Daily	1972	1971
ALBERTA		
Calgary	121	124
Jumping Pound	69	51
East Crossfield	58	64
Westerose	5	5
Nevis	4	5
Wildcat Hills	3	1
Sarcee	2	1
Homeglen Rimbey	2	2
Wimborne	1	—
Other	2	—
	267	253

NET SULPHUR PRODUCTION AND SALES



Reserves (Proven Developed and Probable)

	1972	1971
OIL AND NATURAL GAS LIQUIDS (BBLs.)		
Remaining Reserves at Jan. 1	218,213,460	203,647,400
Reserves Added	10,175,869	24,979,143
	228,389,329	228,626,543
Production	12,441,881	10,413,083
Remaining Reserves at December 31	215,947,448	218,213,460
NATURAL GAS (MMCF)		
Remaining Reserves at Jan. 1	1,626,873	1,637,158
Reserves Added	73,114	55,167
	1,699,987	1,692,325
Production	73,025	65,452
Remaining Reserves at December 31	1,626,962	1,626,873
SULPHUR (L.T.)		
Remaining Reserves at Jan. 1	3,959,940	5,010,680
Reserves Added	8,970	(958,318)
	3,968,910	4,052,362
Production	97,630	92,422
Remaining Reserves at December 31	3,871,280	3,959,940

Proven Developed and Probable net reserves (after royalties) as evaluated by Company engineers.

"Proven Developed Reserves" are those reserves which can be produced from existing wells or facilities; "Probable Reserves" are those reserves estimated to be commercially recoverable as a result of the beneficial effects of future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Employees

The staff of PanCanadian increased in 1972 from 412 to 428 employees. Salaries and wages increased to \$4.5 million during the year compared with \$3.9 million in 1971.

In order to enable our personnel to keep up with technological advances, PanCanadian has provided its staff with Training and Development and Education Assistance programs. The programs were extended to 178 employees to enable them to improve their technical, professional and managerial skills.

The Company also made financial contributions in the forms of grants and scholarships to the three Alberta universities and the Southern Alberta Institute of Technology.

Through the Employee Dependent Scholarship program nine new scholarships with a value of \$500 each were awarded to children of employees. This, together with the continuing scholarships awarded previously, represent financial assistance to dependents of employees totalling \$8,000.

Panarctic Oils Ltd.

The continued successful exploration for hydrocarbons in Canada's Arctic was highlighted during 1972 by Panarctic's fourth major gas discovery and first oil shows. Together with the discovery of gas in January 1973 at the Dome Arctic Ventures Wallis K-62 well on King Christian Island, the Arctic now boasts 8 natural gas wells.

In February 1972, Panarctic announced a discovery of the first free inflow of crude oil at its well Panarctic Romulus C-42 on Ellesmere Island. This was closely followed in April by an oil show on Panarctic's Thor P-38 well south of Ellef Ringnes Island. Such outstanding success was further substantiated by a gas discovery in June at POR Drake F-16, 6 miles southeast of the original Drake Point gas discovery and in October at POR Drake B-44, the second step-out, 12 miles from Drake Point on Melville Island. In December, Panarctic Tenneco et al POR Hecla F-62 discovered gas 30 miles west of the Drake Point gas field on the west side of the Sabine Peninsula of Melville Island.

With Panarctic's announcement in January 1973 to expand the Company's capitalization by an additional \$25 million, cumulative total investment of \$101 million will have been committed by Panarctic's shareholders to explore some 60 million acres. PanCanadian's total contribution to date is \$6.7 million and our \$2.3 million share of the increased capitalization will represent a total investment in Panarctic of approximately \$9 million.

At December 31, 1972, a total of 59 wells had been drilled or were in progress in the Arctic with 13 rigs now in operation, of which 6 rigs are under contract to Panarctic Oils Ltd.

PanCanadian Gas Products Ltd.

On January 31, 1973 PanCanadian purchased all the issued and outstanding shares of Trans-Canada Petroleum Limited for a cash consideration of \$32 million. The name of this wholly owned subsidiary was changed to PanCanadian Gas Products Ltd.

Gas Products has a 50% interest in a natural gas liquids extraction plant at Empress, Alberta operated by Dome Petroleum. The plant commenced operations in 1972 and will have a maximum production rate of 20,000 barrels per day of propane, butane and natural gasoline. Interests are also held in certain pipeline and storage facilities as well as a fractionation plant at Sarnia, Ontario.

Gas Products also has a right to participate as to a 50% interest in additional facilities to be constructed at another extraction plant at Empress, operated by Pacific Petroleum. The two extraction plants will ultimately process some 3.5 billion cubic feet of gas per day.

This acquisition also included 300,000 net acres of undeveloped land in Alberta and British Columbia, crude oil production of 300 barrels per day and natural gas sales of 9.5 million cubic feet per day. Interests in natural gas reserves amounted to 58 billion cubic feet and oil reserves were 1.8 million barrels.

Special Projects

PanCanadian is continuing its efforts to secure feedstocks for Northwest Natural Gas Company's gas plant near Portland, Oregon. Successful procurement of sufficient supply sources would result in the construction of the Blackfoot Pipeline, to be operated by your Company. This \$60 million, 900 mile long, 10 inch diameter pipeline would transport propane and butane from Edmonton to Portland. Initial capacity would be in the range of 30,000 barrels per day, with a potential to handle throughputs in excess of 50,000 barrels per day.



ALBERTA

Edmonton

BRITISH COLUMBIA

Calgary

Vancouver

Victoria

Working Interest Holdings

in Petroleum and Natural Gas Rights

	At December 31		At December 31	
	1972	1971	1972	1971
	Gross Acres		Net Acres	
Alberta	7,251,458	7,499,878	6,482,343	6,805,002
Northwest Territories and Yukon (1)	4,930,806	5,504,113	3,851,222	4,311,503
British Columbia (2)	875,665	932,751	720,989	820,548
Saskatchewan	2,370,648	2,383,895	2,339,880	2,347,677
Arctic Islands (2)	1,686,740	1,686,740	235,135	235,135
Manitoba	267,763	267,514	263,510	267,514
Quebec	251,250	251,250	75,375	75,375
United States	226,868	96,040	74,416	64,236
North Sea	193,944	75,162	14,072	3,382
Italy	1,666,355	—	622,794	—
Tunisia	315,223	—	118,209	—
TOTAL (4) (5) (6)	20,036,720	18,697,343	14,797,945	14,930,372

Notes:

Note (1) In addition, during 1971 the Company held mineral prospecting permits covering 16,480 gross and net acres in the Keewatin District of the Northwest Territories.

Note (2) In addition, during 1971 and 1972 the Company owns mineral titles covering approximately 1,898,000 gross acres on Vancouver Island, B.C.

Note (3) This does not include the Company's interest in Panarctic Oils Ltd. during 1971 and 1972.

Note (4) During 1971 — 3,996,662 and 1972 — 4,133,985 additional acres were under lease or sublease to others reserving gross and overriding royalties on production.

Note (5) PanCanadian Petroleum Limited in 1971 does not include working interest in U.S. acreage acquired from Mana Resources, Inc. This acreage is included in 1972.

Note (6) Does not include acquisition of TransCanada Petroleum Limited.

SASKATCHEWAN

AREAS IN WHICH
PANCANADIAN PETROLEUM
HOLDS OIL & GAS RIGHTS
AS OF DECEMBER 31, 1972

GAS FIELDS OIL FIELDS

MANITOBA

Regina

Winnipeg

Financial

Record gross income of \$47.3 million for 1972 represented an increase of \$7.9 million or 19.9% over the \$39.4 million gross income reported in 1971. This level was achieved as a result of substantially increased sales volumes and increased crude oil and natural gas liquids prices during the latter part of the year. The operations of Mana Resources, Inc., acquired in 1971 have been consolidated for a full year and also contributed to this increased income.

Total expenses increased by \$6.5 million from \$19.8 million in 1971 to \$26.3 million in 1972. Additional interest expense of \$1.9 million resulted from the issuance of sinking fund debentures during 1972. Depreciation and depletion charges rose by \$3.4 million reflecting the rising expenses associated with exploration for new reserves. Operating expenses decreased from 14.2% of operating revenues in 1971 to 13.6% in 1972 indicating the efficiencies and economies of our expanded operations. Operating and administrative costs accounted for \$1.2 million of the increased expenses.

Net income increased by \$.7 million or 5.2% to \$15.2 million. This represents \$0.49 per share in 1972 compared with \$0.48 per share in 1971.

Cash flow experienced a significant increase of \$4.4 million or 14.3% amounting to \$35.0 million in 1972 compared with \$30.6 million in 1971. Cash flow per share was \$1.12 in 1972 compared with \$1.00 in 1971.

In addition to internal cash generation, the Company provided for the sale of a \$25 million principal amount of 8³/₄% secured debentures. Issued November 1, 1972 to mature November

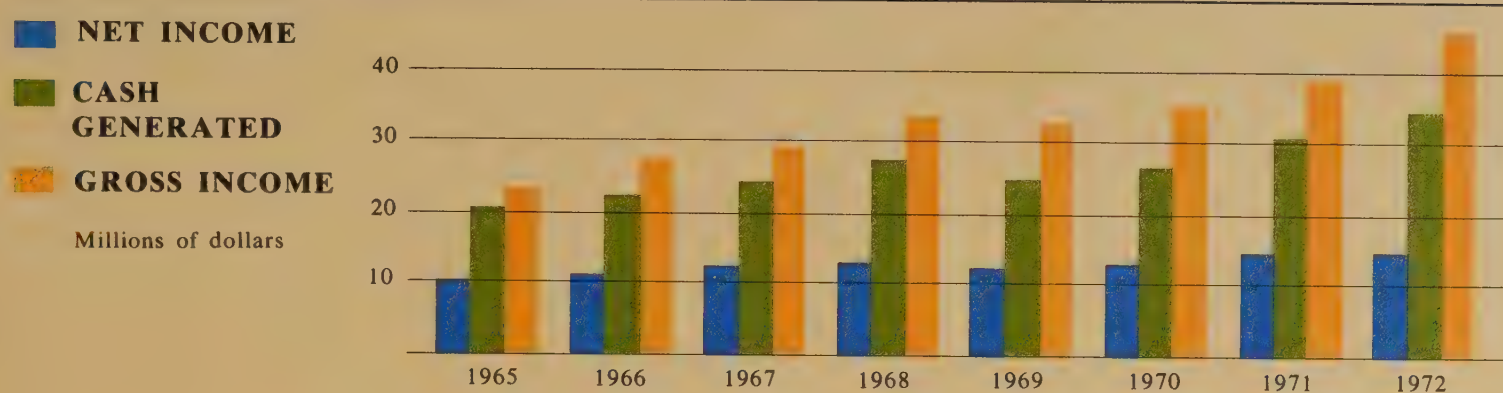
1, 1992, the issue netted approximately \$24,500,000.

Total capital expenditures for 1972 were \$32.1 million compared with \$26.4 million in 1971. The increase of \$5.7 million or 21.7% over 1971 is attributable mainly to an expanded exploratory and development drilling program. Included in the total expenditure figures is our investment in Panarctic Oils Ltd., which in 1972 amounted to \$1.8 million, a 15.2% increase over the \$1.6 million invested in 1971.

Total capitalization at year end amounted to \$242.1 million. Long-term debt outstanding accounted for 29.7% while deferred credits and shareholders' equity accounted for 70.3% of total capitalization.

Operating Revenues

	1972	%	1971	%
Crude Oil	\$28,288,751	62.1	\$23,276,100	60.2
Natural Gas Liquids	2,035,493	4.5	1,881,058	4.9
Natural Gas	11,095,595	24.3	9,396,217	24.3
Sulphur	210,599	.5	449,083	1.2
	41,630,438	91.4	35,002,458	90.6
Lease Rentals	3,932,765	8.6	3,639,901	9.4
	\$45,563,203	100.0	\$38,642,359	100.0



Consolidated Statement of Income and Retained Income for the Year Ended December 31, 1972

Income:	1972	1971
Operating revenue	\$45,563,203	\$38,642,359
Interest income from affiliated company	1,037,453	219,803
Miscellaneous	670,432	569,989
	<u>47,271,088</u>	<u>39,432,151</u>
Expenses:		
Operating	6,174,673	5,482,358
Administrative	2,260,086	1,714,050
Interest	3,904,079	2,037,617
Depreciation (Note 1)	3,393,774	2,423,294
Depletion (Note 1)	10,598,194	8,144,034
	<u>26,330,806</u>	<u>19,801,353</u>
Income before income taxes and extraordinary item	20,940,282	19,630,798
Provision for income taxes (Note 2)	5,696,079	5,533,460
Income before extraordinary item	15,244,203	14,097,338
Extraordinary Item:		
Gain on conversion of bank loan from United States to Canadian currency	—	399,812
Net income for the year	15,244,203	14,497,150
Retained income at beginning of year	39,546,455	34,609,767
	<u>54,790,658</u>	<u>49,106,917</u>
Dividends (\$.32 per share in 1972, 1971 - \$.31)	9,982,240	9,560,462
Retained income at end of year	<u>\$44,808,418</u>	<u>\$39,546,455</u>
Earnings per share:		
Income before extraordinary item	\$.49	\$.46
Net income for the year	\$.49	\$.48

Consolidated Balance Sheet

December 31, 1972

Assets	1972	1971
Current assets:		
Cash	\$ 980,608	\$ 777,545
Term deposits with affiliated company.....	35,885,728	1,545,386
Accounts receivable	7,971,049	7,539,148
Inventories, at average cost —		
Products	427,290	527,598
Materials	454,835	387,812
	<u>45,719,510</u>	<u>10,777,489</u>
Property, plant and equipment, at cost:		
Petroleum, natural gas and mineral properties (Note 1)	241,159,909	216,650,283
Less: Accumulated depletion	(59,270,671)	(48,903,640)
Plant, production and other equipment	42,710,135	37,430,671
Less: Accumulated depreciation	(21,487,532)	(18,411,447)
	<u>203,111,841</u>	<u>186,765,867</u>
Other assets, at cost:		
Drilling, reservation and other deposits	233,062	1,007,118
Investments in non-controlled companies —		
Panarctic Oils Ltd.	6,677,005	4,865,016
Other	992,590	991,360
Unamortized debenture discount and issue expenses	1,155,753	—
	<u>9,058,410</u>	<u>6,863,494</u>
	<u>\$257,889,761</u>	<u>\$204,406,850</u>

Liabilities

	1972	1971
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,802,568	\$ 8,816,294
Due to affiliated company	104,663	838,305
Current portion of long-term debt	2,916,666	2,916,666
	<u>15,823,897</u>	<u>12,571,265</u>
 Long-term debt (Note 3)	 71,979,167	 32,706,463
Deferred credits:		
Deferred rentals	300,097	412,801
Deferred income taxes (Note 2)	52,385,507	46,689,428
	<u>52,685,604</u>	<u>47,102,229</u>
 Shareholders' equity (Notes 4 and 5):		
Capital stock:		
Authorized —		
50,000,000 shares of \$1 par value		
Issued —		
31,205,985 shares of which 8,013		
shares were issued in 1972	31,205,985	31,197,972
Paid in surplus	41,386,690	41,282,466
Retained income	44,808,418	39,546,455
	<u>117,401,093</u>	<u>112,026,893</u>
	<u>\$257,889,761</u>	<u>\$204,406,850</u>

APPROVED ON BEHALF OF THE BOARD:

Robert W. Campbell
Director

Jim Taylor
Director

Notes to Consolidated
Financial Statements December 31, 1972

Note 1
Accounting
practices

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange December 31, 1972.

Other assets and liabilities — at historical rates of exchange.

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

The Companies follow the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of production and other equipment is calculated by the diminishing balance method based on the estimated useful life of the assets.

Note 2
Income
taxes

The Companies follow the tax allocation basis of accounting for income taxes. For timing differences relating to exploration and drilling expenditures, the Companies have consistently followed the practice of providing deferred taxes at an estimated rate, although it is the general practice in the oil and gas industry in Canada to make no provision for taxes so deferred. If current effective rates had been used, the provision for deferred taxes for 1972 would have been \$2,700,000 greater (1971 - \$2,300,000) and the cumulative total to December 31, 1972 would have been increased by \$18,700,000.

Note 3
Long-term
debt

Details of long-term debt outstanding at December 31, 1972 and at December 31, 1971 are set forth hereunder:

	December 31 1972	December 31 1971
Bank loans bearing interest at varying rates above prime bank interest rates —		
Due in quarterly instalments of \$416,667	\$ 7,083,333	\$ 8,750,000
Due in quarterly instalments of \$312,500	7,812,500	9,062,500
Due March 12, 1975	10,000,000	10,000,000
Due March 31, 1973	—	7,810,629
	<u>24,895,833</u>	<u>35,623,129</u>
Less: Current portion	<u>2,916,666</u>	<u>2,916,666</u>
	21,979,167	32,706,463
8 ¹ / ₈ % secured debentures due March 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	—

	December 31 1972	December 31 1971
8 ³ / ₄ % secured debentures due November 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	—
	<u>\$71,979,167</u>	<u>\$32,706,463</u>

The Company has agreed that, without the bank's consent, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

1973 — \$ 2,916,666	1976 — 2,916,666
1974 — 2,916,666	1977 — 1,666,669
1975 — 12,916,666	

Unamortized debenture discount and issue expenses are being charged to income on a straight line basis over the terms of the debenture issues.

Note 4 The changes in capital stock and paid in surplus for the year ended December 31, 1972 are summarized hereunder:

	Number of shares	Capital stock	Paid in surplus
Balance, December 31, 1971	31,197,972	\$31,197,972	\$41,282,466
Exercise of stock options	1,500	1,500	14,250
Shares issued for cash re employee profit sharing plans	6,513	6,513	89,974
Balance, December 31, 1972	<u>31,205,985</u>	<u>\$31,205,985</u>	<u>\$41,386,690</u>

Note 5 At December 31, 1972 there were no options outstanding giving employees the right to purchase shares of the Company. During the year 1,500 shares were issued under a share option plan for a cash consideration of \$15,750.

Note 6 During 1972 there were thirteen directors and ten officers (as defined by the Canada Statutory information Corporations Act) of whom four were also directors.
Officers' remuneration and directors' fees for 1972 amounted to \$278,761 and \$29,008 respectively, (1971 - \$253,739 and \$23,400) none of which was paid by subsidiaries.

Note 7 Effective January 31, 1973 the Company purchased all of the outstanding shares of Event subsequent to TransCanada Petroleum Limited for a cash consideration of \$32,000,000.
balance sheet date

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other

Calgary, Alberta
February 19, 1973

supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1972

Funds provided by:	1972	1971
Net income for the year	\$15,244,203	\$14,497,150
Expenses not requiring a current outlay of funds —		
Depreciation	3,393,774	2,423,294
Depletion	10,598,194	8,144,034
Deferred income taxes	5,696,079	5,533,460
Amortization of debenture discount and issue expenses	32,479	—
Funds from operations	34,964,729	30,597,938
Decrease (increase) in performance deposits	774,056	(202,829)
Issue of debentures	50,000,000	—
Long-term bank loans	—	12,858,524
Issue of shares	112,237	9,270,950
	<u>85,851,022</u>	<u>52,524,583</u>

Funds applied to:

Petroleum, natural gas and mineral properties	24,740,789	31,079,524
Plant, production and other equipment	<u>5,597,153</u>	<u>5,771,307</u>
	30,337,942	36,850,831
Investment in Panarctic Oils Ltd.	1,811,989	1,572,820
Increase in other investments	1,230	7,298
Unamortized debenture discount and issue expenses	1,188,232	—
Retirement of bank loan	7,810,629	—
Instalments on bank loans	2,916,667	2,916,666
Decrease (increase) in deferred rentals	112,704	(38,702)
Dividends	<u>9,982,240</u>	<u>9,560,462</u>
	<u>54,161,633</u>	<u>50,869,375</u>
Increase in working capital	31,689,389	1,655,208
Working capital (deficiency) at beginning of year	<u>(1,793,776)</u>	<u>(3,448,984)</u>
Working capital (deficiency) at end of year	<u>\$29,895,613</u>	<u>\$ (1,793,776)</u>

Eight Year Statistical Review

The figures shown below combine the operations of Central-Del Rio Oils Limited with the operations of Canadian Pacific Oil and Gas Limited from 1969 to 1972. The prior years have been restated accordingly for comparative purposes. Eight years are now available and the statistics review will ultimately be expanded to include 10 years in the 1974 Annual Report. With the exception of per share figures, dollar amounts are in thousands.

Financial	1972	1971	1970	1969	1968	1967	1966	1965
Gross Income	\$ 47,271	\$ 39,432	\$ 34,928	\$ 33,247	\$ 33,377	\$ 29,584	\$ 26,796	\$ 23,747
Cash Generated	34,965	30,598	27,143	25,854	27,402	24,288	22,348	20,571
Per Share	1.12	1.00	0.89	0.85	0.90	0.80	0.74	0.68
Net Income	15,244	14,497	12,635	12,124	13,578	12,564	10,742	10,308
Per Share	0.49	0.48	0.41	0.40	0.45	0.41	0.35	0.34
Cash Dividends	9,982	9,560	8,830	9,350	8,117	6,743	5,516	3,980
Per Share	0.32	0.31	0.29	0.31	0.27	0.22	0.18	0.13
Working Capital Deficiency	29,896	(1,794)	(3,449)	(3,471)	(9,763)	(5,196)	2,938	5,420
Long Term Debt	71,979	32,706	22,765	17,810	400	—	—	—
Deferred Income Taxes	52,386	46,689	41,156	36,362	31,353	25,604	20,242	16,443
Capital Expenditures								
Exploration	22,756	19,349	18,262	23,067	18,757	16,574	12,789	8,858
Development	1,985	1,129	844	1,537	2,508	3,433	3,351	9,522
Production Facilities & Equipment	5,597	4,373	3,297	2,022	2,552	6,388	3,507	3,635
Total	30,338	24,851	22,403	26,626	23,817	26,395	19,647	22,015
Number of Shares Outstanding .	31,205,985	31,197,972	30,456,478	30,452,145	30,451,710	30,450,321	30,311,654	30,288,324
Number of Shareholders	7,881	8,010	8,374	7,727	7,644	6,889	6,443	5,728

Operations

Production — Net								
Oil and Natural Gas Liquids (bbls.)								
Daily Average	12,441,881	10,413,083	9,703,787	8,884,316	8,699,602	8,546,597	8,442,107	7,378,694
Natural Gas (Mcf.)	33,994	28,530	26,586	24,341	23,770	23,416	23,129	20,216
Daily Average	73,025,193	65,451,962	59,047,895	57,151,781	46,316,019	38,747,585	35,621,847	34,565,140
Sulphur (l.t.)	199,522	179,320	161,775	156,581	126,546	106,158	97,594	94,699
Daily Average	97,630	92,422	81,805	96,496	85,877	59,673	27,050	18,738
Properties — Working Interest								
Petroleum and Natural Gas								
Gross Acreage	20,036,720	18,697,343	23,216,601	27,603,614	21,670,174	18,989,267	17,082,737	15,810,701
Net Acreage	14,797,945	14,930,372	16,768,363	20,324,109	17,707,530	15,138,216	13,550,007	13,029,094
Wells — Net								
Oil	444.47	447.15	425.70	428.84	411.52	412.99	404.99	290.40
Gas	367.06	323.43	276.92	266.12	259.80	248.02	215.11	199.85
Number of Employees	428	412	383	374	385	363	348	323

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1972 \$1,811,989, 1971 \$1,572,820, 1970 \$1,451,486, 1969 \$1,087,802, 1968 \$752,908.

PanCanadian Petroleum Limited

P.O. Box 2850
Calgary, Alberta
T2P 2S5

Directors

- *Alex G. Bailey
Calgary, Alberta
- †G. J. van den Berg
Montreal, Quebec
- *Robert W. Campbell
Calgary, Alberta
- A. D. Cohen
Winnipeg, Manitoba
- J. K. Finlayson
Montreal, Quebec
- Hugh A. Martin
Vancouver,
British Columbia
- M. C. McKinnon
Calgary, Alberta
- *H. M. Pickard
Calgary, Alberta
- The Honourable
Duff Roblin, P.C., C.C.
Montreal, Quebec
- J. C. Ross
Lethbridge, Alberta
- Ian D. Sinclair, Q.C.
Montreal, Quebec
- *J. M. Taylor
Calgary, Alberta

*Member Executive Committee

†Resigned as of March 1, 1973

Officers

- Robert W. Campbell
Chairman of the Board
and Chief Executive
Officer
- J. M. Taylor
President
- M. C. McKinnon
Executive Vice President
- Ian D. Sinclair, Q.C.
Vice President
- W. F. Mugler
Vice President - Land
- M. A. Rogers
Vice President -
Exploration
- C. H. Stevens
Vice President and
Comptroller
- V. B. Watson
Treasurer and Assistant
Comptroller
- George E. Little
Corporate Secretary
- C. Millar
Assistant Secretary

Shares Listed

Calgary Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company
of Canada
Calgary - Montreal -
Toronto - Vancouver

Banker

The Royal Bank of Canada

Auditors

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

Subsidiary and Affiliate Companies

Wholly Owned

Canadian Pacific Oil and
Gas of Canada Limited
Canadian Pacific Oil and
Gas, Italia, S.p.A.
PanCanadian Petroleum
Company
P.C. Oil and Gas Limited
Canadian Pacific Oil
and Gas Nederland BV.
PanCanadian Gas
Products Ltd. (acquired
1973)
PanCanadian Petroleum
(U.K.) Limited

Other

Minerals Ltd - 50%
Panarctic Oils Ltd. - 9.03%

PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information." The report contains more detailed information than it is possible to include in the Annual Report and is mainly provided for the use of security analysts. Any shareholder requesting a copy may obtain one by directing a request to the Supervisor Corporate Analysis.

